

The overseas work of the Bank of England

The Overseas Department of the Bank of England is probably larger than that of any other central bank; this article discusses briefly some of the reasons for this, indicating the nature and range of the overseas activities in which the Bank are involved.

The starting point is that sterling is an international currency and hence the Bank of England is – in a sense that most central banks are not – an international bank. Eighty overseas central banks and monetary authorities have accounts at the Bank and conduct many of their sterling transactions over these accounts. In addition, as H.M. Government's own bankers and financial advisers, the Bank are continually called on to help formulate and execute external financial policy. In order to fulfil these functions the Bank have for long laid particular stress on developing and maintaining close contacts with central banks and other financial institutions abroad. Indeed, the Bank have played an important part in establishing quite a large number of central banks or monetary agencies in other countries.

Origins and development of the Overseas Department

The Bank's involvement in overseas affairs first assumed importance during the First World War; until then, there were few central banks among the Bank's customers. Wartime restrictions by a number of European countries on international movements of gold led to the opening of accounts at the Bank by several foreign central banks. After the war it became increasingly clear that there was a major role for central banks in the work of economic reconstruction and currency stabilisation. Both Lord Norman¹ and Governor Strong of the Federal Reserve Bank of New York had for some time seen the need for creating and developing close co-operation between central banks and, following the Genoa International Economic Conference of 1922 – which had suggested that there should be organised collaboration between central banks – they worked together with their colleagues, particularly those in France and Germany, to achieve stabilisation of currencies over the widest possible area.

As the volume of work in the international field grew, so the organisation within the Bank for dealing with it developed. In 1926 a separate Central Banking Section was established in the Chief Cashier's Office to deal in particular with those aspects of the work that went beyond the routine management of the accounts of central bank customers. A number of Advisers were specially recruited to widen the Bank's expertise on overseas affairs and, by 1932, the organisation had grown large enough to be formed into a separate department. Over the years it has undergone several changes; for most of the 1939-45 War and for some years afterwards, the overseas organisation and the offices dealing with exchange control formed part of the Cashier's Department. After becoming a separate department once more it was, in 1959, united with the Statistics Office (until then part of the Secretary's Department) in a new Central Banking Information Department, which studied both the domestic economy and overseas problems. Finally, in 1964, these two functions were separated, the home side becoming the Economic Intelligence Department, and the overseas side emerging once more as the Overseas Department – concerned with the study of

¹ Governor of the Bank from 1920 to 1944.

economic and financial trends abroad, liaison with foreign central banks and international financial institutions, co-operation with government departments on a wide range of overseas questions and the administration of exchange control.⁷

The study of economic and financial trends abroad calls for little comment or explanation. Relevant information about practically every country in the world and about international monetary developments in general, is collected and analysed in the Overseas Department, so that the implications for the United Kingdom may be assessed and the formulation of external economic policy assisted. Knowledge is kept up to date through frequent visits abroad by members of the Bank and through contacts with overseas bankers and embassies in London.

Central bank co-operation

The central bank co-operation which is so widely known and which has been of such benefit to the United Kingdom in recent years, has at least a forty-year history.

During the 1920's and early thirties the Bank, in pursuit of the objective of exchange stabilisation, took a prominent part in a series of operations that involved the extension of credits by stronger central banks to other central banks. Some operations were undertaken under the auspices of the League of Nations, some by central banks on their own initiative and some by a number of central banks in concert. The Bank of England, which gave assistance on several occasions to other central banks, itself received assistance in 1925 and 1931; this took the form of credit extended by the Federal Reserve Bank of New York – acting, in 1931, with the Bank of France.

Tangible evidence that it was now recognised that inter-central bank co-operation could make an important contribution to international monetary stability was given in the negotiations leading up to the Hague Agreements of 1930 – when the Bank for International Settlements was established as part of the arrangements to deal with the problems associated with the post-war reparation payments by Germany. From its inception the B.I.S. has provided, through its monthly and annual meetings at Basle, a unique opportunity for governors and senior officials of its member central banks to hold informal and confidential discussions; and this has proved particularly valuable in the past ten years.

The end of 1958 saw a concerted move to non-resident convertibility by the principal countries belonging to the European Payments Union. This was primarily a central bank operation and much of the preliminary discussion took place at Basle. Since the establishment of convertibility, which increased the potential for large international movements of short-term funds, the need for central bank collaboration has grown. The first major test came in March 1961 when the revaluations of the deutschemark and the Netherlands guilder led to pressure on the pound and on other currencies. The wave of speculation was checked a week later when central bank governors, meeting in the B.I.S. Board at Basle, declared that rumours of further currency adjustments had no foundation and that eight central banks were co-operating closely in foreign exchange markets.

The negotiation of these so-called 'Basle Arrangements', and the history of their later development, provide convincing proof of the value of personal and direct contacts of a long-standing nature between the central banks concerned. As part of the arrangements,

⁷ The work of the exchange control, which is administratively part of the Overseas Department, was the subject of an article in the September *Bulletin* and is not reviewed again here.

European central banks agreed either to accept sterling against their own currencies, on a swap basis, or to extend dollar credits to the Bank of England – facilities that were drawn on by the United Kingdom shortly afterwards. Over the years, these arrangements have been developed further and have been used by other countries – notably by Italy in the spring of 1964; they have also been extended to cover other currencies, in particular the U.S. dollar, through the negotiation of swap agreements between the Federal Reserve Bank of New York and other central banks, including the Bank of England. As is well known, the arrangements have been of the greatest importance since 1964 in supporting sterling during periods of pressure.

Yet another international monetary development, involving a number of central banks, followed the acceptance of Article VIII of the I.M.F.'s Articles of Agreement by a number of major countries early in 1961 – completing the move towards convertibility started in 1958. This move underlined the need to strengthen the Fund's resources to cope with the greater flows of short-term capital which might (and indeed did) take place under the new conditions. Accordingly, the United Kingdom and nine other countries – subsequently known collectively as the 'Group of Ten' – undertook in December 1961 to stand ready to lend their currencies to the Fund, should additional resources be needed to meet the new conditions. Under these 'General Arrangements to Borrow' the Fund was guaranteed access to additional resources up to an aggregate of \$6,000 million.

Llaison with monetary institutions in overseas sterling countries

Close liaison with the central banks of the sterling area has for long been of prime importance. The mutual confidence that had been established before the war between the Bank and monetary authorities in overseas sterling countries made it much simpler to devise and administer the exchange control procedures, and to take the other co-operative measures that were necessary during the 1939-45 War to conserve the sterling area's resources of gold and dollars. In the immediate post-war period, the Bank played a large part in the financial negotiations with countries holding sterling balances accumulated as a result of the war. Financial missions to Argentina, India, Egypt and Iraq, for example, in 1946 and 1947 led to agreements with these countries that the greater part of their sterling holdings should be blocked and the funds released – at a limited pace – for use over a period of years.

Later, as the character of the sterling area changed, new problems arose. The 1950's saw the progressive elimination of the accumulated wartime balances – those of Pakistan and India, for example, had been run down by 1955 and 1957, respectively – while others, notably Malaya, the West African territories and certain Middle Eastern countries, were gaining balances in London from improved commodity earnings or rapidly rising oil production. The task of liaison with the monetary authorities of these countries became especially important as changes took place in the pattern of major sterling holders. Through personal contacts with the authorities in the countries concerned, the Bank were able to influence decisions made in those countries for the future conduct of their sterling accounts, so that the outcome was consistent with the interests of the sterling area as a whole. This process – which might be styled financial diplomacy – is merely one example of the value of such close relationships.

Technical advice and assistance overseas

The giving of technical advice and assistance overseas is another major aspect of liaison and collaboration between the Bank and other central banks and monetary institutions. Through their continuing studies of, and contacts with overseas banking and currency systems, the Bank have built up a considerable store of knowledge and experience, which has been put at the service of other countries in the development of their own monetary systems. In many cases the Bank have helped to draw up new banking and currency legislation, and, in addition, have provided the first governors and staff for new central banks and currency authorities. Requests for technical advice and assistance may come directly to the Bank or, nowadays, through the Central Banking Service of the I.M.F., which was established in 1964.

The earliest occasion on which the Bank provided assistance for a new central bank was in 1920 when a senior official became the first Governor of the South African Reserve Bank. In 1927 another official was invited to report on the internal organisation of the National Bank of Bulgaria. Later, in the early and middle 1930's, visits were made to advise on currency and banking matters in Australia, New Zealand, Brazil, Egypt, Argentina, India, El Salvador and Canada; in several of these countries new central banks were established and, in three cases, members of the Bank subsequently spent a year or more with the new institutions. But the traffic in skill and experience was not all one way: one of the first Advisers recruited by Lord Norman had come from the Federal Reserve System in the United States.

Since the 1939-45 War the political evolution of the Commonwealth has been matched by an equally rapid development of monetary systems.¹ It was natural for most of the newly-emerging countries in the sterling area to turn first to London for advice and assistance in the development of financial institutions and monetary legislation. And requests to the Bank for assistance of one kind or another have come from many countries.² The Bank have responded by sending experts to investigate banking and currency situations, to advise on whether new institutions should be set up, and, if so, in what form. In some cases it has appeared that modifications of existing machinery would suffice for the time being; but frequently the outcome has been a recommendation that either a currency authority or a central bank should be established, the form of the new institution depending on the existing degree of development of a country's banking and currency system.

Establishing a new institution usually involves the drafting of new statutes, a matter in which the Bank's experience has grown with the years. And, as noted above, the Bank may well be asked to provide staff to assist nationals of the country concerned while they acquire the necessary experience to take over. Because so many new central banks have been established in recent years, the emphasis has been increasingly on the provision of staff for these institutions. Bank advisers have also served (and two continue to serve) as members of currency authorities overseas; this involves them in frequent travel to the countries concerned – in effect as visiting consultants to governments. Since 1946, the Bank have provided governors, deputy governors and operational or advisory staff for over twenty central banks and currency authorities.

International institutions have also made much use of Bank personnel. The Bank have been releasing staff, sometimes on a permanent basis, for service with the B.I.S. in Basle since 1930; and,

¹ An account of currency and banking developments in certain Commonwealth countries during the post-war period was given in the March 1962 *Bulletin*, page 25.

² Most of these were sterling area countries and included the Federation of Malaysia, Hong Kong, the South Arabian Federation, Cyprus, Malta, Libya, some of the Shaikhdoms of the Gulf, the territories of the former Federation of Rhodesia and Nyasaland, Lesotho, all the former British West African territories, and some Commonwealth Caribbean territories. Other requests have come from countries outside the sterling area such as Brazil and Chile.

since the war, fifteen members of their staff have served there on temporary assignments. In addition to providing help with the United Kingdom representation on the Executive Board of the I.M.F. the Bank have seconded members of their staff for service with the Fund: over fifty have served in Washington in various capacities since the establishment of the I.M.F.

Altogether, since the 1939-45 War, there have been more than 200 overseas appointments of at least six months' duration, involving over 170 men and women from the Bank's staff.

In the course of their duties members of the Bank's staff regularly visit those countries for the study of which they are responsible. This is an essential part of the process of maintaining relationships with central banks and currency authorities, and of learning at first hand about changing economic conditions. Similarly, many members of overseas central banks' staff come to London for consultations or training. Some figures will illustrate the growth of this traffic: in the twelve months ended June 1950, the Bank received 89 visitors from 30 countries; in the year 1966 there were 405 visitors from 83 countries, of whom 25 spent three weeks or more in the Bank. A number of the visitors who come from the newer central banks for training, stay in London long enough for the Bank to arrange for them to spend part of their time with other institutions in the City.

In addition to the courses of training for individual visitors, the Bank have arranged a series of courses on central banking which last for about two months. The first course was held in 1957, after the idea had been discussed at a meeting of Commonwealth central bank governors in London. During these sessions, which are for staff primarily from central banks in the Commonwealth, the participants follow a planned series of lectures given by experts from the Universities, the City and the Civil Service as well as from the Bank; and visit City institutions such as the Stock Exchange, Lloyd's and the commodity markets. Nineteen countries were represented on the last course, held in the early summer of this year.

To help build up their knowledge and experience of foreign countries the Bank also send younger members of their staff to participate in training courses arranged elsewhere. Courses for young men mainly from central banks in Latin America have been held annually since 1953 in Mexico under the auspices of C.E.M.L.A.,¹ and the Bank regularly nominate a participant. Similarly the Bank have accepted invitations to send members of their staff to the S.E.A.N.Z.A.² courses, initiated in 1957 by the Reserve Bank (then the Commonwealth Bank) of Australia. Senior officials from the Bank also attend these courses from time to time as lecturers.

Very recently, the decision to devalue sterling required the full deployment of the Bank's resources in the overseas field; and it involved all aspects of this side of their work – close liaison with countries in the sterling area, co-operation with other countries whose currencies are in international use and the negotiation of support facilities with other central banks and with international monetary institutions. If illustration were needed of the continuing value of the close personal contacts and the accord built up over many years between the Bank and their overseas counterparts, the recent period of stress must surely provide it.

¹ Centre for Latin American Monetary Studies.
² South East Asia, New Zealand and Australia.